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SUBJECT: COM MEETS BANK OF SLOVENIA GOVERNOR

REF: LJUBLJANA 1047

11. (U) SUMMARY: Ambassador paid a courtesy call on Bank of Slovenia's (BOS) Governor Mitja Gaspari on 17 November. Gaspari, BOS Governor since 2001 and a former Minister of Finance, highlighted the stable macroeconomic position of Slovenia and was optimistic about the planned introduction of the Euro in 2007. Gaspari expects the new government will maintain a good relationship with the BOS. Commenting on the much talked about privatization of current state-owned firms, Gaspari stated that he thinks that Slovenia should encourage greater competition in sectors to be privatized prior to any sales of the state-owned stakes. Gaspari also confirmed that the BOS and Slovenia would welcome an American banking investment. End summary.

Stable economy

12. (U) Gaspari pointed out that BOS's main objective is to keep a stable macroeconomic situation in Slovenia. He proudly explained that the inflation rate has been dropping and the exchange rate is stable. (Note: Inflation in 2003 was 5.6%; current expectations for 2004 show likely inflation of approximately 3.3%. End note.) Gaspari highlighted the good relationship that the BOS enjoys with the outgoing Government of Slovenia (GOS) and hopes that this will continue when the new government takes over. He stressed a need for a strong, coherent government to work on economic restructuring and to implement health and pension sector reforms.

Introduction of Euro

13. (U) Gaspari expects successful completion of the ERM II probationary period and is optimistic that Slovenia should have no trouble adopting the Euro as its currency in early 2007. He noted that a failure in the next year to meet the Maastricht criteria for Euro introduction could postpone the project for many years. When COM mentioned the weakening dollar, Gaspari commented that this has actually helped mitigate the impact of high oil prices. On the other hand, he mentioned, Slovenian trade with the Euro zone may face competitive challenges in the long run because of a stronger Euro. (Note: Slovenia is heavily reliant on trade and nearly 70% of its trade is with Europe. End note.)

Competition first, then privatization

14. (U) There has been much written in the Slovene press of late about the privatization of state-owned industries, in particular telecom. When COM asked Gaspari for his opinion on this, Gaspari mentioned that a more transparent and competitive environment is a precondition for further privatization of state property in sectors like telecommunications or energy. Stating that privatization is not a 'panacea', Gaspari commented that the real challenge for Slovenia is how to make the current state-owned sectors more competitive. Pointing at bad experiences with privatization in Croatia and Hungary, Gaspari commented that Slovenia was lucky not to have been forced to privatize in a hurry because of the success and stability of the economy. Gaspari stated that while there is no particular need for the state to be involved in certain sectors of the economy, state property as such is not necessarily bad, referring to high state stakes in countries like Germany or Italy. Gaspari sees opportunities for new FDI in telecom as well as in the energy, transport and financial sectors. He believes that Slovenia needs 'appropriate' investors who are willing to bring in new technology.

U.S. Welcome

15. (U) When COM asked Gaspari about his well-publicized visits with Citicorp in the U.S., Gaspari mentioned that he supported the idea of U.S. investors in the banking sector. Having met with high-ranking officials at Citicorp several times, Gaspari seemed eager to attract non-European investment. He stated that he did not want Slovenia to be 'dominated by institutions from neighboring countries'.

(Note: Austrian and Italian banks are the largest foreign investors in the Slovene banking system. End note.) Gaspari went on to say that he hoped Citicorp or another U.S. financial institution would look as seriously at Slovenia as they would at other Central European countries. According to Gaspari, Citicorp is waiting for a project proposal from Slovenia. Gaspari stated that this is something he would take up with the new government after they 'settled in' to their new positions. (Comment: In a related meeting, on 18 November COM received a courtesy call from Marjan Kramar, president of Nova Ljubljanska Banka, the largest commercial bank in Slovenia. Kramar commented that he has also met with Citicorp and has explored ideas for their participation in the Slovene market. Kramar indicated that while Citicorp may not be interested in Slovenia specifically, he mentioned that there could possibly be some regional niche opportunities in the countries of the former Yugoslavia. End comment.)

Public-Private Partnerships

16. (U) Following on from a recent discussion with Andrej Bajuk, head of the New Slovenia Party (reftel), COM asked Gaspari about the possibility of Public-Private Partnerships (PPPs) in Slovenia. Gaspari lamented the lack of PPPs in Slovenia and mentioned that there should be some opportunities for these types of ventures in the energy sector. When COM commented that the European Bank for Reconstruction and Development (EBRD) was active in the Central European region and did quite a bit of work on PPPs, Gaspari appeared visibly frustrated. Stating that the problem was 'on our side', Gaspari mentioned that while there was a draft law supporting PPPs, 'too many lawyers' have caused the approval of the law to stall and that the law remained 'on a shelf'. Echoing Bajuk (reftel), Gaspari commented that the use of PPPs would help the government optimize use of the budget.

Comment

17. (SBU) COM's first meeting with one of the critical players in the Slovene economy was a successful one. Gaspari, while naturally reserved, is a good contact for post and has a favorable perception of the U.S. Despite highlighting several times that the BOS is an independent institution, we expect Gaspari will work very closely with the new GOS. While it is unclear how successful he may be in attracting foreign financial institutions to a market that other Slovene bankers have described as 'overbanked', he is encouraging of foreign participation in the domestic market.

ROBERTSON

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